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SUBJECT: SCENESETTER FOR CODEL MCCAIN'S VISIT TO VIETNAM

HANOI 00000297 001.2 OF 005

OVERVIEW

1. (SBU) Your April 6-8 visit to Vietnam comes at an opportune moment. Our bilateral relationship with Vietnam has progressed much since your last visit to Hanoi in April 2000 and is arguably at its highest point since relations were normalized in 1995. Propelled by a series of senior bilateral visits, the United States and Vietnam have deepened cooperation in areas ranging from public health and MIA issues to higher education and technical assistance designed to support Vietnam meet its WTO and Bilateral Trade Agreement obligations. The United States is Vietnam's largest export market and third largest overall trade partner, and U.S. investment in Vietnam continues to grow. Conservative voices in Vietnam's leadership remain wary of U.S. intentions, but their influence is waning as the country's young population -- the first generation in memory to live without war -- looks to the West. Strategically, Vietnam increasingly views the U.S. presence in the region as a force for stability, a perspective evident in the first-ever bilateral political-defense talks and policy planning talks in October 2008. Vietnam is also taking a more active role in multilateral diplomacy, both as a non-permanent member of the UN Security Council and as an emerging leader in ASEAN.

2. (SBU) Profound differences remain, however, particularly in our approach to human rights. While Vietnam has made strides in improving religious freedom -- resulting in the country being removed from the list of "Countries of Particular Concern" -- there has not been a corresponding improvement in political rights or press freedom. Suspicion over our human rights reporting and advocacy are part of the reason for the cumbersome restrictions that the GVN continues to place on our HCMC consulate operations. We have our differences too on how Vietnam approaches international issues. While taking its UNSC obligations seriously, Vietnam's non-interventionist line has caused it to align with Russia and China on issues such as Georgia and Darfur. China, understandably, remains Vietnam's strategic obsession and provides the subtext for Hanoi's "friends to all" foreign policy -- an approach that can at first seem naive, but which is firmly rooted in realpolitik.

VIETNAM'S FOREIGN POLICY PRIORITIES

3. (SBU) Vietnam professes a "friends to all" foreign policy, guided by a non-interventionist ethic that is fundamentally pragmatic. While the overriding strategic concern remains China, Vietnam is under no illusions that it can somehow "balance" China with the United States, Russia, or Japan. Mistrust of China runs deep, fed by historical animosities and simmering resentment over what is widely viewed as a weak position on South China Sea territorial disputes. Vietnam's leadership appears to realize, however, that confrontation with China is not in the country's interest. Nor is it a position that the Party could sustain

domestically: once unleashed, nationalistic sentiment, though initially directed at China, could easily turn toward the Party itself.

14. (SBU) Instead, Vietnam seeks to maintain as cordial and stable a relationship with China as possible, while also cautiously cultivating a diverse range of bilateral friendships and enmeshing these in a framework of multilateral engagement. In this context, Vietnam's bilateral relationship with the United States enjoys pride of place; however, our relationship is but one of several, and Vietnam is wary of pushing the agenda with the United States too far, too fast, lest it antagonize China.

15. (SBU) Multilaterally, Vietnam puts great store in ASEAN. It has voiced support for enhancing both the association's internal capabilities and its relationships with ASEAN's dialogue partners. Similarly, Vietnam looks at a number of regional issues such as Burma and the Thai-Cambodia border disputes largely, though not exclusively, through an ASEAN lens. Thus, while Vietnam's natural impulse is not to interfere in Burma's internal affairs, Hanoi recognizes the obstacles that Rangoon's continued intransigence poses for ASEAN's credibility and relations with the West. At the UNSC, Vietnam has been professional and well-briefed, but cautious. Vietnam's UN mission has been eager to join in consensus, when possible, voting for example to support sanctions on Iran. But where there has been disagreement, Vietnam has tended to follow a non-interventionist line.

HUMAN RIGHTS AND RELIGIOUS FREEDOM

16. (SBU) For Vietnam non-interference is not just an abstract principle, but also a reflection of narrow self-interest. Vietnam continues to have a poor record on human rights and still reacts defensively to criticism, though it has learned to be more

HANOI 00000297 002.2 OF 005

responsive to international calls for dialogue, engaging the United States and others in annual formal human rights discussions. Vietnam's sensitivities notwithstanding, promoting human rights, religious freedom, and the growth of an active civil society remain top U.S. priorities. For its part, the MFA seems to have fixated on the possibility of a Vietnam Human Rights Act in Congress, and you are likely to hear objections to its passage.

17. (SBU) The human rights picture is not all bleak, to be sure. Economic growth has brought with it an enormous expansion of personal freedoms, and government is much less intrusive than it was twenty, ten, or even five years ago. While much remains to be done, religious freedoms continue to expand, with most religious groups reporting improved conditions and growing memberships. We see this progress as continuing. We have not, however, seen corresponding progress in political rights, and the government continues to severely restrict freedom of speech and assembly. Political dissident groups such as "Bloc 8406" are banned and their members subject to harassment and arrest. Similarly, the October 2008 conviction of two correspondents reporting on a major corruption scandal (universally referred to here as the "PMU-18" scandal) and the firing of several senior newspaper editors has had a chilling effect on the recently emerging field of investigative journalism. Vietnam's internet blog scene, particularly in HCMC, has been a source of spirited debate. But here too, the government is feeling, clumsily thus far, for a way to curb what it considers to be overly sensitive discussions; in September 2008, a prominent blogger critical of Vietnam's "soft" stance toward China was sentenced to two and a half years in prison. We have been pressing Vietnam to amend its draft media law and to provide whistle-blower protection for journalists and their sources.

ECONOMIC SUCCESS AND CHALLENGES

18. (U) Trade and investment have played a central and expanding role in our improved relations. After a decade of isolation and failed economic policies, Vietnam is determined to catch up with the Asian Tigers. Vietnam's market-oriented reform program ("doi moi,"

renovation) spurred export-led economic growth that averaged 7.5% over the past decade. The global economic crisis is testing Vietnam's ability to maintain this momentum. GDP growth of 6.2% in 2008 was the lowest since 2000, and is expected to be even lower in 2009, with most projections below 5%. Foreign investment and export numbers are unlikely to reach the milestone levels of 2008.

¶9. (U) Trade with the United States remains important to Vietnam. Bilateral trade in goods was up 25% from the previous year, and stood at an all-time high of \$15.7 billion by the end of 2008. U.S. exports are a success story and, despite the crisis, they were still higher in January 2009 than the same month in 2008. U.S. exports to Vietnam grew by 47% from 2007 to 2008 to \$2.79 billion and the growth in agricultural exports (up 83%) was extraordinary. Exports of meats and poultry went up by 166% to \$263 million, becoming the U.S.'s second highest value export to Vietnam after vehicles (which also went up by 18% to \$258 million). Thirty two other agricultural commodities experienced growth of three digits or higher.

¶10. (U) We are seeking to keep up the momentum with negotiations toward a new Bilateral Investment Treaty (BIT). Vietnam also joined the Trans-Pacific Partnership free trade negotiations, a step we hope you will also encourage. The two sides recently agreed to open up completely their air cargo markets under a revised civil aviation agreement. Inadequate intellectual property protection and, especially, deficiencies in protecting labor rights remain major problems, which stand in the way of Vietnam's request for GSP status. In 2008, we also held the first meetings of the Market Economy Status Working Group, an initiative that Vietnam wants to continue (the BIT and the Working Group were jointly announced during the Prime Minister's visit to Washington in June 2008). We are pushing Vietnam to open its market further to U.S. beef.

¶11. (U) Despite rapid economic growth, Vietnam's economy continues to face substantial challenges, including underdeveloped infrastructure; a shortage of skilled workers, managers, and engineers; and chronic misallocation of state resources to inefficient, but politically powerful state-owned enterprises. Poverty reduction efforts have been extremely successful -- a recent World Bank study described Vietnam's poverty reduction rate as one of the most significant in history. That said, corruption is endemic and disparities of wealth have widened. Further, GVN lacks the technical capacity and systems to ensure consumer safety of products and exports, as evidenced by recent struggles dealing with melamine, seafood, and cholera.

¶12. (U) The global financial crisis has not directly affected Vietnam given its limited integration into the world financial system. However, the slowing global economy has affected Vietnam's

HANOI 00000297 003.2 OF 005

exports and foreign investment inflows. It has revised its 2009 GDP growth estimate down to 6.5%, a figure that many local economists argue is still too high. Recent developments come on top of significant macroeconomic difficulties at the beginning of the year, including high inflation, a ballooning current account deficit, and pressure on the currency caused by high money supply and credit growth. After tightening monetary and fiscal policy in response to these earlier difficulties, the government has been forced to quickly change tacks to cutting interest rates and implementing stimulus plans. Its primary concerns are now maintaining economic growth and stability and supplying jobs for its young and growing workforce.

THE MILITARY RELATIONSHIP AND TERRORISM

¶13. (SBU) Military ties, for obvious historical reasons, have developed less rapidly. But here too there has been progress. Efforts to provide the fullest possible accounting of missing personnel predate the establishment of diplomatic relations, and the development of trust on the issue has made gains in other fields possible. We would like to see more progress in areas such as underwater recovery and archival access, but, overall, both sides can be proud of our achievements: accounting for 880 Americans previously listed as MIA (1766 remain missing throughout Southeast

Asia). Largely on these foundations, the two sides' militaries are slowly developing ties and have discussed cooperation in search and rescue, military medicine and meteorological information exchanges. These and other initiatives -- such as expanding English-language training under IMET, ship visits, and encouraging Vietnam to participate in global peacekeeping operations -- were on the agenda for political-defense talks, the first of their kind, which were held in October 2008.

¶14. (SBU) While the Vietnamese people and the GVN have also made great strides toward healing war wounds and getting on with the business of building a future for their country, issues relating to the status of former ARVN soldiers, as well as others associated with the "former regime," remain painful. One of the next important psychological steps that the GVN needs to take in order to move from division to unity is to expand their drives aimed at reconciliation with foreign soldiers who served in Vietnam to include Vietnamese who served in the ARVN.

¶15. (SBU) Vietnam says the right things about the threat of global terrorism and has participated with us in modest cooperative activities, including USG-funded counterterrorism-related training at the International Law Enforcement Academy (ILEA) in Bangkok and military-to-military exchanges with an emphasis on counterterrorism themes. Vietnam has signed eight out of thirteen UN terrorism conventions. Vietnam recently hosted a team of technical experts from the Department of Energy to discuss the possibility of launching Megaports in the ports of Saigon and Haiphong. This would be a major step forward, and the government is currently considering a draft MOU proposed by the DOE.

AGENT ORANGE

¶16. (SBU) The recent Supreme Court decision not to hear the appeal by Vietnamese Agent Orange "victims" of the dismissal of their lawsuit against U.S. chemical companies resulted in broad public criticism, fanned by the local media. Your interlocutors most likely will raise this issue with you. At the same time, over the past few years we have made noticeable progress in our attempts to remove this war legacy issue as an irritant to our bilateral relationship. Our engagement has accomplished much, in both transforming the tone of the dialogue and building capacity to address environmental issues and provide assistance for the disabled.

¶17. (SBU) Despite continuing disagreement over the scope of possible health effects of dioxin, a contaminant in Agent Orange and other herbicides, from 2001 to 2007, the USG spent over USD 2 million to initiate technical dialogues and scientific conferences on the effects of Agent Orange/dioxin, and fund a 4-year project to build the capacity of Vietnamese scientists to analyze soil samples collected from the Danang airport. The Joint Advisory Committee (JAC) for Agent Orange/dioxin, which brings together scientists and researchers from both governments to provide science-based advice to policy makers for potential environmental and health cooperation, held its third annual meeting last September, during which Vietnamese and U.S. members set up task forces to implement health and remediation recommendations.

¶18. (SBU) USAID has started to implement a 2007 USD 3 million Congressional appropriation for "dioxin mitigation and health activities," with the November 2008 announcement of USD 1 million in

HANOI 00000297 004.2 OF 005

grants to three partner organizations to strengthen services for the disabled in Danang city. As part of a growing multilateral coalition, we are finalizing plans to spend up to USD 1.4 million on remediation preparation efforts in Danang and will soon meet with our GVN counterparts to discuss the additional USD 3 million recently appropriated for Agent Orange in the FY09 Omnibus Budget Bill.

HEALTH, TRADE, EDUCATION, CLIMATE CHANGE

¶19. (U) Health diplomacy has been a hallmark of Mission strategy for over 10 years, has opened many doors, and currently about 80 percent of all funding is in health and disability. Combating the spread of infectious disease has been one of the most vigorous areas of bilateral cooperation. Including funds approved so far for FY2009, which provide an additional USD 88.6 million, HIV/AIDS assistance under PEPFAR totals USD 322 million since 2004 devoted to HIV/AIDS in Vietnam. The results have been encouraging, with Vietnam achieving the targets set by the Office of Global AIDS Coordination. Vietnam is one of a few global epicenters for highly pathogenic avian influenza, which experts believe could lead to a pandemic. Accordingly, the United States has made substantial investment to prevent and control avian influenza, with total funding since 2004 of about USD 45 million projected through FY 2009. Myriad other capacity building work, for example in tuberculosis, research capacity building, and good clinical practice, has been done. While we have strong disease-specific investments, we are now working with the Vietnamese and our partners to contribute a greater focus on general health system strengthening to keep pace with rapid health sector reform.

¶20. (U) U.S. assistance in other areas remains disproportionately low, particularly in relation to assistance levels in neighboring developing nations. Even so, U.S. programs such as USAID's STAR and the Vietnam Competitiveness Initiative have become the government's preferred source of expertise in reshaping trade and economic regulation, with secondary positive effects on governance. Treasury is also starting to engage on economic issues, with programs in areas such as anti-money laundering, taxation, insurance and bond market development.

¶21. (U) Education, although a newer priority, is the focus of much Mission activity. Joint efforts to improve Vietnam's system of higher education -- including expanding opportunities to study in the United States and enhancing educational opportunities in Vietnam through partnerships with U.S. universities -- was a main focus of PM Dung's June visit to Washington. As a product of the visit, the two sides established an Educational Task Force to discuss ways forward in several key areas, including establishing an American university in Vietnam. Ongoing U.S. educational activities include the Fulbright Program, which provides scholarships for two-year Master's Degree programs at American universities for 25 Vietnamese students each year, and the Vietnam Education Foundation, which sends more than 40 students to the U.S. for Ph.D. study in the hard sciences every year. The Fulbright Economic Teaching Program provides high-quality training in economics and public policy for mid-level administrators. In addition, the U.S. Mission actively assists U.S. universities and colleges wanting to set up programs at Vietnamese schools, while EducationUSA Centers in Hanoi and Ho Chi Minh City provide information and counseling to encourage students to study in the U.S.

¶22. (U) Vietnam's rapid economic growth has put strains on the environment, and the government's failure to address unchecked pollution from booming Export Processing Zones and Industrial Parks has drawn the attention of local media. Climate change is an increasingly high-profile issue, and Vietnam's leadership is aware of scientific studies outlining the severe effects rising sea levels and salinity will have on Vietnam's ecology and coastal economy, particularly in the rice-producing deltas. The June 2008 Joint Statement between President Bush and PM Dung prominently mentioned climate change. During Dung's visit, the United States and Vietnam agreed to accelerate cooperation on climate change adaptation and mitigation, and announced the creation of the Delta Research and Global Observation Network (DRAGON) Institute at Can Tho University.

Supported by the U.S. Geological Survey, DRAGON Institute is specifically designed to enhance cooperation on environmental issues, particularly climate change, threatening the Mekong Delta. These efforts support initiatives already underway by various U.S. agencies -- including USAID, the U.S. Forest Service, and NOAA -- that directly or indirectly support Vietnam's climate change response. Expanded cooperation from the U.S. Department of Energy and U.S. Nuclear Regulatory Commission to support the creation of the necessary safety and security infrastructure for Vietnam's planned civilian nuclear power sector may also help mitigate Vietnam's future greenhouse gas emissions.

ADOPTION

123. (SBU) Over the past two years, the US Embassy has uncovered serious irregularities in the adoption system in Vietnam. Anti-fraud investigations have uncovered more than 10 cases where children were taken without the consent of their birth parents; 75% of birth parents interviewed reported receiving payment as direct inducements for placing their child up for adoption; most did not understand that they were permanently relinquishing custody of their children. As a result of these problems, the U.S. did not renew our adoption agreement with Vietnam and imposed a moratorium on new adoptions from Vietnam. The United States, along with our international partners, believe that it is essential that Vietnam become a full member of the Hague Convention as soon as possible and have offered technical assistance to help Vietnam reach this goal. While meaningful legal reforms and Hague accession will likely take several years, we are encouraged that the government has begun to acknowledge the problem and has formed an inter-agency working group on adoption policy reform coordinated by the Office of the Government.

WHAT YOU CAN EXPECT

124. (SBU) While the GVN recognizes the strategic importance of the United States in the region and the world, leaders here are not shy about raising the specter of U.S.-led efforts to bring about political change or to criticize U.S. actions it perceives as outside the multilateral system. They routinely chafe over U.S. criticism of Vietnam's record of human rights and religious freedom. Nonetheless, Vietnam's leaders are also pragmatic and value their relationship with the United States, both for its intrinsic importance and because Vietnam's security and economic growth have become inextricably enmeshed in an international system of which the United States remains the leader. As a result, you can expect your interlocutors not only to be articulate and well informed, but also to express support for the bilateral relationship. As noted above, lingering suspicions still exist among conservatives in leadership; however, the overall tenor is one of support for the development of closer ties with the United States, albeit at a measured pace. Media interest in your visit will be keen, and we expect extensive and positive coverage in all major Vietnamese outlets for your activities. This, too, will help to amplify the message you bring of ongoing cooperation. Your upcoming trip to Hanoi and coverage of it will add momentum to our efforts to help translate these good feelings into sustainable accomplishments.

125. (U) We look forward to your visit and stand ready to do everything we can to make your discussions as productive as possible.